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OP:E:EO:T:3

Employer Identification Number: [REDACTED] OCT 20 1998

Dear Taxpayer:

This refers to your application for recognition of exemption from federal income tax as an organization described in section 501(c)(15) of the Internal Revenue Code.

The information furnished shows that you were incorporated under [REDACTED] and has redomesticated to [REDACTED].

The information submitted discloses that your shareholders are S [REDACTED] (%), M [REDACTED] (%) and [REDACTED] (%).

You reinsure credit life and credit A&H sold by [REDACTED] [REDACTED] is owned as follows: [REDACTED] (%), M [REDACTED] (%), [REDACTED] (%). The remaining [REDACTED] % is owned by other parties including [REDACTED] family members.

You entered into a reinsurance contract in [REDACTED] with [REDACTED] under which you reinsured credit life and credit A&H insure contracts produced by [REDACTED]. Under this contract, [REDACTED] agrees to cede and you agree to accept [REDACTED] % of the total liability under credit life contracts and [REDACTED] % of the total liability under credit disability contracts of insurance sold by the dealership.

The copy of the insurance contract (hereafter [REDACTED]) is a combined life and A&H contract. The [REDACTED] treats the policy as a life product.

The financial information furnished shows that you had net written premium income of \$ [REDACTED] in [REDACTED], \$ [REDACTED] in [REDACTED], \$ [REDACTED] in [REDACTED], and \$ [REDACTED] in [REDACTED] in premium income.

Section 501(c)(15) of the Code provides for recognition of exemption of "[i]nsurance companies or associations other than life (including interinsurers and reciprocal underwriters) if the

net written premium (or, if greater, direct written premiums) for the taxable year do not exceed \$350,000."

Rev. Rul. 74-196, 1974-1 C.B. 140, provides, in part, that the same criteria should be used to determine whether an organization is an insurance company, other than life, for both section 501(c)(15) and subchapter L of the Code.

Rev. Rul. 68-27, 1968-1 C.B. 315, provides, in part, that the meaning of the term "insurance company" as defined in the regulations is equally applicable to insurance companies other than life. Thus, the primary and predominant business activity of an organization qualifying as an insurance company must be the issuing of insurance contracts.

Section 816(a) of the Code provides in part that the term "life insurance company" means any company more than half of the business of which is the issuing of insurance or annuity contracts, (either separately or combined with accident and health policies) or noncancellable contracts of health and accident insurance, if (1) its life insurance reserves plus (2) unearned premiums and unpaid losses on noncancellable contracts of health and accident insurance (not included in life reserves) comprise more than 50 percent of its total reserves. For purposes of the preceding the term "insurance company" means any company more than half of the business of which is the issuing of insurance or annuity contracts or the reinsuring of risks underwritten by insurance companies.

Section 7702(a) provides that the term "life insurance contract" means any contract which is a life insurance contract under applicable law, but only if such contract-

1. meets the cash value accumulation test of subsection (b), or
2. (A) meets the guideline premium requirements of subsection (c), and
(B) falls within the cash value corridor of subsection (d).

Because [REDACTED] treats the [REDACTED] policy as a life product, the threshold issue is whether the [REDACTED] policy is a life insurance contract within the meaning of section 7702(a) of the Code. After a careful review of the terms of the [REDACTED], we conclude that the [REDACTED] policy comes within the ambit of section 7702(a)(2)(A) and (B) of the Code. Thus, we conclude that the [REDACTED] policy is a life insurance contract within the meaning of section 7702(a) of the Code.

Because your income comes from reinsuring a life insurance contract, you are considered a life insurance company for purposes of section 501(c)(15) of the Code, regardless of whether 50 percent of your total reserves are considered life reserves under section 816(a) of the Code. Therefore, we conclude that all of the premium income is income from a life policy. Accordingly, since all of your premium income is from a life policy, you are a life insurance company under Subchapter L of the Code.

Because you are a life insurance company under Subchapter L of the Code, you are not an "insurance company" within the meaning of section 501(c)(15) of the Code for 1988 and subsequent years. Accordingly, based on the above, we conclude that you do not qualify for recognition of exemption under section 501(c)(15) of the Code.

You are required to file federal income tax returns.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your officers, must be submitted within 30 days of the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director in Cincinnati, Ohio. Thereafter, any question about your federal income status should be addressed to that office.

Sincerely yours,

 "Signed - Edward K. Karcher"

Edward K. Karcher
Chief, Exempt Organizations
Technical Branch 3